

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------------------------------------|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name CITY OF NORTH MUSKEGON | County MUSKEGON |
| Fiscal Year End 11/30/06 | Opinion Date 1/29/07 | Date Audit Report Submitted to State 3/1/07 | |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | NO OTHER ITEMS REQUIRED | |
| Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC | | Telephone Number 231-726-5800 | |
| Street Address TERRACE PLAZA SUITE 500 | | City MUSKEGON | State MI |
| | | Zip 49443 | |
| Authorizing CPA Signature  for Brickley De Long, PLC | | Printed Name TIMOTHY D. ARTER | License Number 10253 |

City of North Muskegon
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended November 30, 2006

City of North Muskegon

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As management of the City of North Muskegon, we present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended November 30, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the City had total assets of \$15,476,392 and total liabilities of \$2,868,170 leaving net assets of \$12,608,222, an increase of 3.35% in the City's overall net assets.
- Of the total \$12,608,222 in net assets, the City may use \$1,567,953 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$4,074,796, made up of governmental revenues of \$2,837,383 and business-type revenues of \$1,237,413.
- Total expenses for all of the City's programs were \$3,666,622. Of that total, the governmental expenses were \$2,478,460 and the business-type expenses were \$1,188,162.
- This year the City repaved Lake Avenue and Riverview Avenue for a total cost of \$74,223 and \$60,121, respectively.
- The City was awarded a grant from the Michigan Department of Natural Resources Trust Fund for 64% of the estimated cost of \$325,000 for the improvement to the area known as Waterfront Sports Park. The project, which began during the 2006 year, included site clearing and grading, expanding the existing soccer field, constructing a new playground area, picnic pavilion, lake observation pier, lake access ramp, concrete sidewalk, paved parking area, site lighting and other related work.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the City include general government, public safety, public works and cultural and recreational activities. The business-type activities of the City include water distribution and sewer services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Contingent and Reserve and Millage funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water and Sewer funds both of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General, Major Streets, Local Streets and Contingent and Reserve funds.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the City. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of November 30, 2006, the City's net assets from governmental activities totaled \$9,912,770 (79%) and \$2,695,452 (21%) from business-type activities, creating a total government-wide net assets total of \$12,608,222.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$744,417. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,695,452 in net assets including \$823,536 (31%) in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$233,951 and \$594,682, respectively.

The decrease in current assets and other assets of the governmental activities mirrors the decrease in unrestricted net assets in the governmental activities. These current assets and unrestricted net assets were primarily spent on capital assets, increasing the capital assets and invested in capital assets, net of related debt net assets category. Among the capital additions were the Lake Avenue and Riverview Avenue reconstruction project, improvements made to the Waterfront Sports Park area, and the purchase of handicap doors at the library, community events sign, thermal imager, radar trailer, two police cruisers and a dump box for a truck. The State of Michigan also donated two voting machines to the City and a family in the City donated a clock tower for Walker Park.

The increase in current assets and other assets of the business-type activities is primarily due to the increase in access rights in the Sewer Fund.

Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|-------------------------------------------------|----------------------------|--------------|-----------------------------|--------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current assets and other assets | \$ 2,264,112 | \$ 2,526,657 | \$ 1,328,490 | \$ 1,117,401 | \$ 3,592,602 | \$ 3,644,058 |
| Capital assets | 9,181,437 | 8,593,473 | 2,702,353 | 2,670,155 | 11,883,790 | 11,263,628 |
| Total assets | 11,445,549 | 11,120,130 | 4,030,843 | 3,787,556 | 15,476,392 | 14,907,686 |
| Current liabilities | 476,309 | 423,080 | 262,970 | 239,300 | 739,279 | 662,380 |
| Noncurrent liabilities | 1,056,470 | 1,143,203 | 1,072,421 | 902,055 | 2,128,891 | 2,045,258 |
| Total liabilities | 1,532,779 | 1,566,283 | 1,335,391 | 1,141,355 | 2,868,170 | 2,707,638 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 8,115,834 | 7,446,127 | 1,871,916 | 1,766,507 | 9,987,750 | 9,212,634 |
| Restricted | 1,052,519 | 1,135,172 | - | - | 1,052,519 | 1,135,172 |
| Unrestricted | 744,417 | 972,548 | 823,536 | 879,694 | 1,567,953 | 1,852,242 |
| Total net assets | \$ 9,912,770 | \$ 9,553,847 | \$ 2,695,452 | \$ 2,646,201 | \$ 12,608,222 | \$ 12,200,048 |

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows changes in net assets.

Change in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------------|----------------------------|--------------|-----------------------------|--------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 136,915 | \$ 126,446 | \$ 1,204,156 | \$ 1,529,601 | \$ 1,341,071 | \$ 1,656,047 |
| Operating grants | 327,010 | 306,354 | - | - | 327,010 | 306,354 |
| Capital grants and contributions | 213,659 | 964,178 | - | - | 213,659 | 964,178 |
| General revenues | | | | | | |
| Property taxes | 1,639,706 | 1,597,832 | - | - | 1,639,706 | 1,597,832 |
| Franchise fees | 21,911 | 21,898 | - | - | 21,911 | 21,898 |
| Grants and contributions not restricted | 339,758 | 345,620 | - | - | 339,758 | 345,620 |
| Unrestricted investment earnings | 82,388 | 58,310 | 33,257 | 23,885 | 115,645 | 82,195 |
| Miscellaneous | 72,684 | 47,693 | - | - | 72,684 | 47,693 |
| Gain on sale of capital assets | 3,352 | 7,257 | - | - | 3,352 | 7,257 |
| Total revenues | 2,837,383 | 3,475,588 | 1,237,413 | 1,553,486 | 4,074,796 | 5,029,074 |
| Expenses: | | | | | | |
| General government | 638,394 | 511,596 | - | - | 638,394 | 511,596 |
| Public safety | 971,800 | 1,053,340 | - | - | 971,800 | 1,053,340 |
| Public works | 633,723 | 458,390 | - | - | 633,723 | 458,390 |
| Culture and recreation | 195,942 | 170,245 | - | - | 195,942 | 170,245 |
| Interest on long term debt | 38,601 | 20,368 | - | - | 38,601 | 20,368 |
| Sewer Fund | - | - | 328,276 | 299,171 | 328,276 | 299,171 |
| Water Fund | - | - | 859,886 | 890,147 | 859,886 | 890,147 |
| Total expenses | 2,478,460 | 2,213,939 | 1,188,162 | 1,189,318 | 3,666,622 | 3,403,257 |
| Change in net assets | 358,923 | 1,261,649 | 49,251 | 364,168 | 408,174 | 1,625,817 |
| Net assets - Beginning | 9,553,847 | 8,292,198 | 2,646,201 | 2,282,033 | 12,200,048 | 10,574,231 |
| Net assets - Ending | \$ 9,912,770 | \$ 9,553,847 | \$ 2,695,452 | \$ 2,646,201 | \$ 12,608,222 | \$ 12,200,048 |

At year-end, on November 30, 2006, net assets increased by \$358,923 in governmental activities and \$49,251 in business-type activities. This resulted in an increase of \$408,174 government-wide.

Governmental Activities

The City received a large grant for Ruddiman Drive reconstruction during the prior fiscal year which is why the capital grants and contributions revenue category decreased this year. General government expenses increased primarily due litigation issues. See Note K in the "Notes to Financial Statements" of this report for additional information. Public works expenses increased due to higher depreciation expense with the completion of Ruddiman Drive in the prior fiscal year and because of more activity in the sanitation department.

Business-type Activities

Charges for services decreased due to the increase in sprinkler meter purchases, which only meters sprinkler water use and does not create any sewer charges and also due to lower water usage for the year. Lower water usage caused Water Fund expenses to decrease. Sewer Fund expenses went up despite the decline in water usage due to rate hikes from Muskegon County for sewage treatment.

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the City governmental funds reported a combined unreserved fund balance of \$1,437,602. This number represents the unreserved fund balance of \$25,000 in the General Fund, \$715,891 in Major Streets, \$259,101 in Local Streets, \$430,505 in Contingent and Reserve and \$7,105 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for advances to other funds (\$7,898) and for capital projects (\$77,527). When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,523,027, which consists of a fund balance of \$25,000 in the General Fund, \$715,891 in Major Streets, \$259,101 in Local Streets, \$438,403 in Contingent and Reserve, \$75,962 in Millage Fund plus the fund balance of \$8,670 in other governmental funds.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Sewer fund decreased by \$3,639 and the Water fund net assets increased by \$51,694. The result was an overall net increase in the proprietary funds of \$48,055.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- State revenue was originally budgeted for \$340,860 and was amended up to \$525,534 because a state grant for the Waterfront Sports Park was received.
- Investment earnings were originally budgeted for \$28,000 and were amended up to \$43,000 because of higher than anticipated interest rates.
- Attorney expenses were originally budgeted for \$32,400 and were amended up to \$79,613 because of unanticipated legal costs.
- The public service building department was originally budgeted for \$28,700 and was amended up to \$39,700 to cover the costs of a professional analysis which measured the remaining traces of contamination at an old Leaking Underground Storage Tank (LUST).
- The police department budget of \$500,746 was amended down to \$481,604 because one of our full-time officers was called to active duty with the National Guard. His shifts were covered by part-time officers.
- Sidewalk maintenance was originally budgeted for \$22,300 and was amended down to \$7,300 because fewer sidewalks were replaced than anticipated.
- Recreation facilities were originally budgeted for \$30,000 and were amended up to \$41,950 because of labor, material, and equipment costs to add a sprinkling system to the Waterfront Sports Park.
- Other governmental functions were originally budgeted for \$593,993 and were amended down to \$545,210 largely due to a decrease in health care costs brought about by a restructuring of employee and retiree benefits.
- Capital outlay was originally budgeted for \$71,500 and was amended up to \$449,644 because of the Waterfront Sports Park project, clock tower and community events sign.
- Transfers in were originally budgeted for \$76,500 and were amended up to \$260,847 also because of the Waterfront Sports Park project, clock tower and community events sign.
- Transfers out were originally budgeted for \$23,520 and were amended up to 57,020 because of a larger than anticipated year end transfer to the Contingent and Reserve fund.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures in the General Fund.

- Capital outlay was \$582,248, \$132,604 more than budgeted because work continued at the Waterfront Sports Park longer than anticipated because of mild early winter temperatures.
- General Fund transfers in were \$345,119, \$84,272 more than budgeted to cover amounts needed to pay for work completed at the Waterfront Sports Park during November.

Capital Assets

The City investment in capital assets for its governmental and business-type activities as of November 30, 2006 totaled \$11,883,790 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, and vehicles.

Major capital asset events during the current fiscal year included the following:

- The State of Michigan donated two voting machines to the City, valued at \$6,792 each.
- The City purchased handicap doors for the community center for \$9,475.
- The City purchased a community events sign for \$34,447.
- The City purchased a thermal imager for \$7,700.
- The City's police department purchased two police cruisers for \$27,829 each.
- The City purchased a radar trailer for \$7,745.
- The City reconstructed Lake Avenue for \$74,223.
- The City repaved Riverview Avenue for \$60,121.
- A family in the City contributed a clock tower located in Walker Park valued at \$5,794.
- The City incurred an additional \$128,822 for the completion of the reconstruction of Ruddiman Avenue.
- The sewer department purchased a lift station pump for \$5,272.
- The City's DPW department purchased a dump box for \$11,415.
- Work on the Waterfront Sports Park continued.
- The City disposed of a truck and two police cruisers.

CAPITAL ASSETS (Net of Accumulated Depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 4,946,506 | \$ 4,946,506 | \$ 1,500 | \$ 1,500 | \$ 4,948,006 | \$ 4,948,006 |
| Construction in progress | 492,115 | 34,796 | 97,995 | - | 590,110 | 34,796 |
| Land improvements | 104,098 | 111,448 | - | - | 104,098 | 111,448 |
| Buildings and improvements | 772,586 | 808,724 | 11,495 | 12,415 | 784,081 | 821,139 |
| Vehicles and equipment | 758,414 | 740,867 | 10,900 | 9,689 | 769,314 | 750,556 |
| Infrastructure | 2,107,718 | 1,951,132 | - | - | 2,107,718 | 1,951,132 |
| Sewer system | - | - | 717,453 | 735,019 | 717,453 | 735,019 |
| Water system | - | - | 1,863,010 | 1,911,532 | 1,863,010 | 1,911,532 |
| Total | <u>\$ 9,181,437</u> | <u>\$ 8,593,473</u> | <u>\$ 2,702,353</u> | <u>\$ 2,670,155</u> | <u>\$ 11,883,790</u> | <u>\$ 11,263,628</u> |

Additional information on the City's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

Long-term Debt

At the end of the 2006 fiscal year, the City had total outstanding debt of \$2,368,691 consisting of general obligations bonds, revenue bonds, Michigan Transportation Fund debt, and compensated absences. Approximately \$710,000 or (30%) of the City's outstanding debt represented in table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

OUTSTANDING DEBT

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|----------------------------|---------------------|-----------------------------|-------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| General obligation bonds | \$ 1,025,000 | \$ 1,100,000 | \$ 442,446 | \$ 236,055 | \$ 1,467,446 | \$ 1,336,055 |
| Michigan Transportation Fund debt | 55,000 | 65,000 | - | - | 55,000 | 65,000 |
| Compensated absences | 122,470 | 126,407 | 13,776 | - | 136,246 | 126,407 |
| Revenue bonds | - | - | 710,000 | 760,000 | 710,000 | 760,000 |
| Total | <u>\$ 1,202,470</u> | <u>\$ 1,291,407</u> | <u>\$ 1,166,222</u> | <u>\$ 996,055</u> | <u>\$ 2,368,692</u> | <u>\$ 2,287,462</u> |

The City's total debt increased by \$81,230 during the fiscal year. This increase was due to the increase of \$264,238 in general obligation bonds in the sewer fund, offset by debt payments.

Additional information on the City's long-term debt can be found in Note I of the "Notes to the Financial Statements" of this report.

General Economic Overview

Property Tax Revenues

The City's charter allows for the collection of 10 mills per dollar of taxable value assessed to each property owner. The City's 2006 general operating millage rate will be rolled back to 9.3878 by the Headlee Amendment, which was designed to limit the growth of property tax revenue by controlling the formula used to calculate property taxes. In addition to the operating millage, the city will collect 1.3 of an allowable 2.5 mills for yard waste collection and 1.5 mills, the third year of a 10-year charter amendment millage, for public safety equipment purchases and the Ruddiman Drive repaving project.

Michigan state property tax revenue increases are also greatly influenced by the 1994 Amendment to the State Constitution, commonly referred to as "Proposal A". The statewide tax reform amendment limits the growth in taxable value on any unsold individual property to the lesser of inflation or 5 percent. When property is transferred, the resulting Headlee roll back, caused by the uncapping of taxable values, actually results in other property owners paying less than the rate of inflation. Because the City of North Muskegon is a "mature" community with few parcels available for the building of new homes, the effect of this rollback is magnified. The result is slower growth in the City's property tax revenues.

State Shared Revenues and Grants

Typically, the second largest source of municipal revenue is state shared sales tax revenue. Over the past several years, the State's budget challenges have caused a reduction in revenue sharing payments to local governmental units. During the past six years the City's General Fund has experienced a total reduction in state shared revenues of \$94,054 as compared to fiscal year 2000 levels.

General Fund

The 2007 General Fund budget anticipates a break-even year for the City. The 2006 budget reflected the arrival of a \$208,000 state grant awarded for various improvements to the City's waterfront sports park. The final landscaping portion of the project will be completed in 2007 when warmer spring weather arrives.

The 2007 budget will be amended to reflect a \$23,540 federal homeland security grant received by the fire department to purchase equipment.

Funding of Other Post Employment Benefits Requirement

The Governmental Accounting Standards Board (GASB) established standards in 1994 regarding how public employee pension plans and governmental employers participating in pension plans should account for and report on pension benefits, but until recently, similar provisions did not exist for Other Post Employment Benefits (OPEB). GASB believes that both pension benefits and OPEB are a part of the compensation that employees earn each year, even though these benefits are not received until after their employment has ended. In an effort to clarify the complete costs of public services and to help readers of financial statements analyze the financial position and long-run financial health of a government, GASB developed standards to ensure that the nature and size of each governmental entity's financial obligations and commitments are presented in a qualitative manner.

The City of North Muskegon must begin reporting their OPEB liability (actual amount will be determined by an actuarial valuation) in the 2009/10 fiscal year. Financial statements of entities which do not set aside money to fund the liability will include a liability in the government-wide financial statements for the unfunded amount. Even though there is presently no mandate to fund the liability, there is reason to believe that future bond ratings may be affected if large liabilities are created.

Because of these upcoming requirements, the 2007 budget sets aside \$29,000 to begin funding our OPEB. Staff will be working with members of the city council to determine an appropriate investment tool to maximize the long-term rate of return on these dollars.

Major Streets and Local Streets Funds

Budgets for revenues and expenditures in both the 2007 Major and Local Streets Fund budgets are consistent with 2006 figures with the exception of the capital outlay expenditures necessary to close out the 2005 Ruddiman Drive project in Major Streets and the 2006 Lake Drive and Riverview projects in Local Streets.

Sewer and Water Funds

The City purchases its water from the City of Muskegon's water treatment plant. Due to water rate increases by Muskegon, North Muskegon implemented a two step rate increase in 2004 and 2005. No further rate adjustments are anticipated during the 2007 fiscal year.

The city plans to replace the water main running through the Bear Lake Channel in the forthcoming year. Returning this section of main to service will complete a loop of the water mains supplying the area west of the channel.

Requests for Information

This financial report is designed to provide a general overview of the City of North Muskegon's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of North Muskegon, 1502 Ruddiman Drive, North Muskegon, Michigan, 49445, (231) 744-1621.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

January 29, 2007

Honorable Mayor and Members
of the City Council
North Muskegon
North Muskegon, Michigan

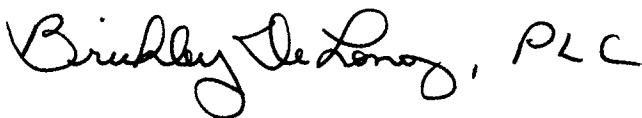
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon as of and for the year ended November 30, 2006, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon, as of November 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - xi and 29 - 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Muskegon's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of North Muskegon
STATEMENT OF NET ASSETS
November 30, 2006

ASSETS

| | Governmental activities | Business-type activities | Total |
|---------------------------------------------------------------|----------------------------|-----------------------------|---------------|
| CURRENT ASSETS | | | |
| Cash and investments | \$ 2,048,425 | \$ 583,932 | \$ 2,632,357 |
| Receivables | 14,285 | 253,231 | 267,516 |
| Due from other governmental units | 99,590 | - | 99,590 |
| Internal balances | 5,097 | (5,097) | - |
| Inventories | 5,000 | 38,000 | 43,000 |
| Total current assets | 2,172,397 | 870,066 | 3,042,463 |
| NONCURRENT ASSETS | | | |
| Capital assets, net | | | |
| Nondepreciable | 5,438,621 | 99,495 | 5,538,116 |
| Depreciable | 3,742,816 | 2,602,858 | 6,345,674 |
| Access rights, net | - | 313,770 | 313,770 |
| Bond issuance costs, net | 14,398 | 8,238 | 22,636 |
| Special assessments receivable | 77,317 | 136,416 | 213,733 |
| Total noncurrent assets | 9,273,152 | 3,160,777 | 12,433,929 |
| Total assets | 11,445,549 | 4,030,843 | 15,476,392 |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 301,800 | 39,748 | 341,548 |
| Due to other governmental units | - | 129,422 | 129,422 |
| Deferred revenue | 28,509 | - | 28,509 |
| Bonds and other obligations, due within one year | 146,000 | 93,800 | 239,800 |
| Total current liabilities | 476,309 | 262,970 | 739,279 |
| NONCURRENT LIABILITIES | | | |
| Bonds and other obligations, less amounts due within one year | 1,056,470 | 1,072,421 | 2,128,891 |
| Total liabilities | 1,532,779 | 1,335,391 | 2,868,170 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 8,115,834 | 1,871,916 | 9,987,750 |
| Restricted for: | | | |
| Streets and highways | 974,992 | - | 974,992 |
| Capital projects | 77,527 | - | 77,527 |
| Unrestricted | 744,417 | 823,536 | 1,567,953 |
| Total net assets | \$ 9,912,770 | \$ 2,695,452 | \$ 12,608,222 |

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF ACTIVITIES
For the year ended November 30, 2006

| Functions/Programs | Program Revenue | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------------------------------|-----------------|----------------------|------------------------------------|----------------------------------|-------------------------------------------------|--------------------------|---------------|
| | Expenses | Charges for services | Operating grants and contributions | Capital grants and contributions | Governmental activities | Business-type activities | Total |
| Governmental activities | | | | | | | |
| General government | \$ 638,394 | \$ 16,933 | \$ - | \$ 13,584 | \$ (607,877) | \$ - | \$ (607,877) |
| Public safety | 971,800 | 57,483 | - | - | (914,317) | - | (914,317) |
| Public works | 633,723 | 55,579 | 327,010 | - | (251,134) | - | (251,134) |
| Culture and recreation | 195,942 | 6,920 | - | 200,075 | 11,053 | - | 11,053 |
| Interest on long-term debt | 38,601 | - | - | - | (38,601) | - | (38,601) |
| Total governmental activities | 2,478,460 | 136,915 | 327,010 | 213,659 | (1,800,876) | - | (1,800,876) |
| Business-type activities | | | | | | | |
| Sewer | 328,276 | 316,634 | - | - | - | (11,642) | (11,642) |
| Water | 859,886 | 887,522 | - | - | - | 27,636 | 27,636 |
| Total business-type activities | 1,188,162 | 1,204,156 | - | - | - | 15,994 | 15,994 |
| Total government | \$ 3,666,622 | \$ 1,341,071 | \$ 327,010 | \$ 213,659 | (1,800,876) | 15,994 | (1,784,882) |
| General revenues | | | | | | | |
| Property taxes | | | | | 1,639,706 | - | 1,639,706 |
| Franchise fees | | | | | 21,911 | - | 21,911 |
| Grants and contributions not restricted to specific programs | | | | | 339,758 | - | 339,758 |
| Unrestricted investment earnings | | | | | 82,388 | 33,257 | 115,645 |
| Miscellaneous | | | | | 72,684 | - | 72,684 |
| Gain on sale of capital assets | | | | | 3,352 | - | 3,352 |
| Total general revenues | | | | | 2,159,799 | 33,257 | 2,193,056 |
| Change in net assets | | | | | 358,923 | 49,251 | 408,174 |
| Net assets at December 1, 2005 | | | | | 9,553,847 | 2,646,201 | 12,200,048 |
| Net assets at November 30, 2006 | | | | | \$ 9,912,770 | \$ 2,695,452 | \$ 12,608,222 |

The accompanying notes are an integral part of this statement.

City of North Muskegon
BALANCE SHEET
Governmental Funds
November 30, 2006

| | General Fund | Major Streets Fund | Local Streets Fund | Contingent and Reserve Fund | Millage Fund | Other governmental funds | Total governmental funds |
|--------------------------------------|-------------------|--------------------------|--------------------------|-----------------------------------|------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | | |
| Cash and investments | \$ 149,278 | \$ 687,320 | \$ 239,697 | \$ 550,918 | \$ 75,953 | \$ 16,076 | \$ 1,719,242 |
| Receivables | | | | | | | |
| Accounts | 2,736 | - | - | - | - | - | 2,736 |
| Property taxes | 69 | - | - | - | 9 | - | 78 |
| Special assessments | - | - | 79,848 | - | - | 8,940 | 88,788 |
| Due from other governmental units | 58,690 | 30,135 | 10,765 | - | - | - | 99,590 |
| Due from other funds | 86,772 | - | - | 57,593 | - | - | 144,365 |
| Advances to other funds | - | - | - | 7,898 | - | - | 7,898 |
| Total assets | <u>\$ 297,545</u> | <u>\$ 717,455</u> | <u>\$ 330,310</u> | <u>\$ 616,409</u> | <u>\$ 75,962</u> | <u>\$ 25,016</u> | <u>\$ 2,062,697</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 156,168 | \$ 843 | \$ 359 | \$ 91,234 | \$ - | \$ 988 | \$ 249,592 |
| Accrued liabilities | 30,274 | 721 | 983 | - | - | 10 | 31,988 |
| Due to other funds | 57,593 | - | - | 86,772 | - | - | 144,365 |
| Deferred revenue | 28,510 | - | 69,867 | - | - | 7,450 | 105,827 |
| Advances from other funds | - | - | - | - | - | 7,898 | 7,898 |
| Total liabilities | <u>272,545</u> | <u>1,564</u> | <u>71,209</u> | <u>178,006</u> | <u>-</u> | <u>16,346</u> | <u>539,670</u> |
| Fund balances | | | | | | | |
| Reserved for: | | | | | | | |
| Advances | - | - | - | 7,898 | - | - | 7,898 |
| Capital projects | - | - | - | - | 75,962 | 1,565 | 77,527 |
| Unreserved, undesignated | | | | | | | |
| General Fund | 25,000 | - | - | - | - | - | 25,000 |
| Special revenue funds | - | 715,891 | 259,101 | 430,505 | - | 7,105 | 1,412,602 |
| Total fund balances | <u>25,000</u> | <u>715,891</u> | <u>259,101</u> | <u>438,403</u> | <u>75,962</u> | <u>8,670</u> | <u>1,523,027</u> |
| Total liabilities and fund balances | <u>\$ 297,545</u> | <u>\$ 717,455</u> | <u>\$ 330,310</u> | <u>\$ 616,409</u> | <u>\$ 75,962</u> | <u>\$ 25,016</u> | <u>\$ 2,062,697</u> |

The accompanying notes are an integral part of this statement.

City of North Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
November 30, 2006

| | | |
|---------------------------------------|--|--------------|
| Total fund balance—governmental funds | | \$ 1,523,027 |
|---------------------------------------|--|--------------|

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

| | | |
|--------------------------|--------------------|-----------|
| Cost of capital assets | \$ 10,960,594 | |
| Accumulated depreciation | <u>(1,913,856)</u> | 9,046,738 |

Bond issuance costs are not capitalized and amortized in the governmental funds.

| | | |
|--------------------------|----------------|--------|
| Bond issuance costs | 18,496 | |
| Accumulated amortization | <u>(4,098)</u> | 14,398 |

| | |
|----------------------------------------------------------------------------------------|---------|
| Accrued interest in governmental activities is not reported in the governmental funds. | (6,000) |
|----------------------------------------------------------------------------------------|---------|

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds. | 77,317 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|

Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

| | | |
|-------------------------|------------------|-------------|
| Bonds and notes payable | (1,080,000) | |
| Compensated absences | <u>(122,470)</u> | (1,202,470) |

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.

| | |
|--|----------------|
| | <u>459,760</u> |
|--|----------------|

| | |
|----------------------------------------------------------------------|----------------------------|
| Net assets of governmental activities in the Statement of Net Assets | \$ <u><u>9,912,770</u></u> |
|----------------------------------------------------------------------|----------------------------|

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended November 30, 2006

| | General Fund | Major Streets Fund | Local Streets Fund | Contingent and Reserve Fund | Millage Fund | Other governmental funds | Total governmental funds |
|----------------------------------------------|-----------------|--------------------------|--------------------------|-----------------------------------|-----------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | | |
| Property taxes | \$ 1,441,760 | \$ - | \$ - | \$ - | \$ 197,946 | \$ - | \$ 1,639,706 |
| Licenses and permits | 72,867 | - | - | - | - | - | 72,867 |
| Intergovernmental revenues - State | 538,197 | 208,448 | 76,486 | - | - | 9,375 | 832,506 |
| Charges for services | 61,313 | - | - | 3,800 | - | 10,170 | 75,283 |
| Fines and forfeitures | 11,021 | - | - | - | - | - | 11,021 |
| Investment earnings | 37,932 | 28,658 | 13,418 | 18,468 | 11,896 | 3,169 | 113,541 |
| Other | 73,694 | - | 14,472 | - | - | 1,490 | 89,656 |
| Total revenues | 2,236,784 | 237,106 | 104,376 | 22,268 | 209,842 | 24,204 | 2,834,580 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| General government | 390,356 | - | - | 91,234 | - | - | 481,590 |
| Public safety | 597,707 | - | - | - | 682 | - | 598,389 |
| Public works | 297,495 | 89,077 | 59,061 | - | - | - | 445,633 |
| Culture and recreation | 118,684 | - | - | - | - | 19,241 | 137,925 |
| Other governmental functions | 542,662 | - | - | - | - | - | 542,662 |
| Debt service | | | | | | | |
| Principal | - | - | 10,000 | - | 75,000 | - | 85,000 |
| Interest and fees | - | - | 2,745 | - | 36,056 | - | 38,801 |
| Capital outlay | 582,248 | 128,822 | 134,344 | - | - | 9,475 | 854,889 |
| Total expenditures | 2,529,152 | 217,899 | 206,150 | 91,234 | 111,738 | 28,716 | 3,184,889 |
| Excess of revenues over (under) expenditures | (292,368) | 19,207 | (101,774) | (68,966) | 98,104 | (4,512) | (350,309) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Proceeds from sale of capital assets | 3,352 | - | - | - | - | - | 3,352 |
| Transfers in | 345,119 | 128,822 | - | 72,398 | - | 9,020 | 555,359 |
| Transfers out | (66,613) | - | - | (270,119) | (203,822) | (14,805) | (555,359) |
| Total other financing sources (uses) | 281,858 | 128,822 | - | (197,721) | (203,822) | (5,785) | 3,352 |
| Net change in fund balances | (10,510) | 148,029 | (101,774) | (266,687) | (105,718) | (10,297) | (346,957) |
| Fund balances at December 1, 2005 | 35,510 | 567,862 | 360,875 | 705,090 | 181,680 | 18,967 | 1,869,984 |
| Fund balances at November 30, 2006 | \$ 25,000 | \$ 715,891 | \$ 259,101 | \$ 438,403 | \$ 75,962 | \$ 8,670 | \$ 1,523,027 |

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended November 30, 2006

| | |
|------------------------------------------------------|--------------|
| Net change in fund balances—total governmental funds | \$ (346,957) |
|------------------------------------------------------|--------------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

| | | |
|---------------------------------------|----------------|---------|
| Depreciation and amortization expense | \$ (243,087) | |
| Capital outlay | <u>854,889</u> | 611,802 |

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | 85,000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid. | 200 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----|

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds. | 3,937 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets. | (11,471) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities. | <u>16,412</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|

| | |
|-------------------------------------------------|--------------------------|
| Change in net assets of governmental activities | <u><u>\$ 358,923</u></u> |
|-------------------------------------------------|--------------------------|

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
November 30, 2006

ASSETS

| | Business-type Activities - Enterprise funds | | | Governmental Activities - Internal service fund |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------|--------------|-------------------------------------------------------------|
| | Sewer | Water | Total | |
| CURRENT ASSETS | | | | |
| Cash and investments | \$ 163,261 | \$ 420,671 | \$ 583,932 | \$ 329,183 |
| Receivables | | | | |
| Accounts | 73,064 | 159,303 | 232,367 | - |
| Special assessments | 1,440 | 19,424 | 20,864 | - |
| Inventories | 6,000 | 32,000 | 38,000 | 5,000 |
| Total current assets | 243,765 | 631,398 | 875,163 | 334,183 |
| NONCURRENT ASSETS | | | | |
| Capital assets | | | | |
| Land | - | 1,500 | 1,500 | - |
| Utility systems | 1,238,796 | 2,695,886 | 3,934,682 | - |
| Buildings and improvements | - | 13,795 | 13,795 | - |
| Equipment | 33,906 | 17,034 | 50,940 | 733,601 |
| Construction in progress | - | 97,995 | 97,995 | - |
| Less accumulated depreciation | (544,944) | (851,615) | (1,396,559) | (598,903) |
| Net capital assets | 727,758 | 1,974,595 | 2,702,353 | 134,698 |
| Access rights, net | 313,770 | - | 313,770 | - |
| Bond issuance costs, net | - | 8,238 | 8,238 | - |
| Special assessments receivable | 7,200 | 129,216 | 136,416 | - |
| Total noncurrent assets | 1,048,728 | 2,112,049 | 3,160,777 | 134,698 |
| Total assets | 1,292,493 | 2,743,447 | 4,035,940 | 468,881 |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 1,440 | 30,578 | 32,018 | 13,568 |
| Accrued liabilities | 359 | 7,371 | 7,730 | 650 |
| Due to other governmental units | 10,009 | 119,413 | 129,422 | - |
| Bonds and other obligations, due within one year | 36,400 | 57,400 | 93,800 | - |
| Total current liabilities | 48,208 | 214,762 | 262,970 | 14,218 |
| NONCURRENT LIABILITIES | | | | |
| Bonds and other obligations, less amounts due within one year | 330,559 | 741,862 | 1,072,421 | - |
| Total liabilities | 378,767 | 956,624 | 1,335,391 | 14,218 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 679,775 | 1,192,141 | 1,871,916 | 134,698 |
| Unrestricted | 233,951 | 594,682 | 828,633 | 319,965 |
| Total net assets | \$ 913,726 | \$ 1,786,823 | 2,700,549 | \$ 454,663 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | (5,097) | |
| Net assets of business-type activities | | | \$ 2,695,452 | |

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended November 30, 2006

| | Business-type Activities - Enterprise funds | | | Governmental Activities - Internal service funds |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------|--------------|--------------------------------------------------------------|
| | Sewer | Water | Total | |
| REVENUES | | | | |
| Charges for services | \$ 304,634 | \$ 863,154 | \$ 1,167,788 | \$ 133,055 |
| OPERATING EXPENSES | | | | |
| Administration | 18,148 | 21,784 | 39,932 | 1,078 |
| Operations | 270,607 | 745,300 | 1,015,907 | 86,781 |
| Depreciation and amortization | 32,794 | 51,908 | 84,702 | 38,511 |
| Total operating expenses | 321,549 | 818,992 | 1,140,541 | 126,370 |
| Operating income (loss) | (16,915) | 44,162 | 27,247 | 6,685 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | 8,465 | 24,792 | 33,257 | 10,923 |
| Connection fees | 12,000 | 24,368 | 36,368 | - |
| Interest expense | (7,189) | (41,628) | (48,817) | - |
| Total nonoperating revenues (expenses) | 13,276 | 7,532 | 20,808 | 10,923 |
| Change in net assets | (3,639) | 51,694 | 48,055 | 17,608 |
| Net assets at December 1, 2005 | 917,365 | 1,735,129 | | 437,055 |
| Net assets at November 30, 2006 | \$ 913,726 | \$ 1,786,823 | | \$ 454,663 |
| Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds | | | 1,196 | |
| Change in net assets of business-type activities | | | \$ 49,251 | |

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended November 30, 2006

| | Business-type Activities - Enterprise funds | | | Governmental Activities - Internal service funds |
|-----------------------------------------------------------------------------------------------|---------------------------------------------|------------|--------------|--------------------------------------------------------------|
| | Sewer | Water | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 308,733 | \$ 874,682 | \$ 1,183,415 | \$ - |
| Receipts from interfund services provided | 1,126 | 5,519 | 6,645 | 133,055 |
| Payments to suppliers | (230,161) | (645,321) | (875,482) | (81,476) |
| Payments to employees | (49,256) | (77,735) | (126,991) | (16,929) |
| Payment for interfund services used | (9,182) | (14,636) | (23,818) | - |
| Net cash provided by operating activities | 21,260 | 142,509 | 163,769 | 34,650 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Connection fees | 13,440 | 61,855 | 75,295 | - |
| Purchases of capital assets | (5,272) | (97,995) | (103,267) | (11,415) |
| Principal paid on capital debt | (33,675) | (53,169) | (86,844) | - |
| Interest paid on capital debt | (7,189) | (42,330) | (49,519) | - |
| Net cash used for capital and related financing activities | (32,696) | (131,639) | (164,335) | (11,415) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Investment earnings | 8,465 | 24,792 | 33,257 | 10,923 |
| Net increase (decrease) in cash and investments | (2,971) | 35,662 | 32,691 | 34,158 |
| Cash and investments at December 1, 2005 | 166,232 | 385,009 | 551,241 | 295,025 |
| Cash and investments at November 30, 2006 | \$ 163,261 | \$ 420,671 | \$ 583,932 | \$ 329,183 |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | | |
| Operating income (loss) | \$ (16,915) | \$ 44,162 | \$ 27,247 | \$ 6,685 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | | |
| Depreciation and amortization expense | 32,794 | 51,908 | 84,702 | 38,511 |
| Change in assets and liabilities | | | | |
| Receivables, net | 5,225 | 17,047 | 22,272 | - |
| Inventories | (3,000) | (5,800) | (8,800) | - |
| Accounts payable | (1,489) | 19,633 | 18,144 | (10,887) |
| Accrued liabilities | 5,050 | 8,199 | 13,249 | 341 |
| Due to other governmental units | (405) | 7,360 | 6,955 | - |
| Net cash provided by operating activities | \$ 21,260 | \$ 142,509 | \$ 163,769 | \$ 34,650 |
| Noncash financing activities | | | | |
| Assumption of additional County debt | \$ 264,238 | \$ - | \$ 264,238 | \$ - |
| Relief of guaranteed County debt | (21,003) | - | (21,003) | - |

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Fund
November 30, 2006

| | <u>Agency Fund</u> |
|---------------------------------|--------------------|
| ASSETS | |
| Cash and investments | \$ <u>8,610</u> |
| LIABILITIES | |
| Due to other governmental units | \$ 1,546 |
| Other liabilities | <u>7,064</u> |
| Total liabilities | \$ <u>8,610</u> |

The accompanying notes are an integral part of this statement.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS
November 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of North Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. Generally accepted accounting principles require that if the City has certain oversight responsibilities over other organizations, those organizations should be included in the City's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's major streets.

The Local Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's local streets.

The Contingent and Reserve Fund is used to account for the excess revenues received or provides for deficiencies incurred in the General Fund.

The Millage Fund is used to account for property taxes received for public safety and Ruddiman Drive repaving.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the City totaled approximately \$131,967,000. The ad valorem taxes levied consisted of 9.4626, 1.44 and 1.5 mills for the City's general operating, rubbish collection and public safety/Ruddiman repaving purposes. These amounts are recognized in the respective General Fund and Millage Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since December 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------|--------------|
| Land improvements | 10-30 |
| Buildings and improvements | 10-35 |
| Office furniture and equipment | 5-10 |
| Vehicles and equipment | 4-25 |
| Infrastructure | 10-50 |

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid for vacation sick days and one-half of their accrued sick days as separation pay under limits that vary by employment group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the commencement of the fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following December 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. No later than November 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended November 30, 2006, actual expenditures exceeded appropriations for:

| | Amended budget | Actual |
|-----------------------------|-------------------|------------|
| General Fund | | |
| Capital outlay | \$ 449,644 | \$ 582,248 |
| Transfers out | 57,020 | 66,613 |
| Contingent and Reserve Fund | | |
| Litigation | - | 91,234 |

These overexpenditures were funded with available fund balance.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of November 30, 2006, the City had the following investments:

| Investment Type | <u>Fair value</u> | <u>Weighted average maturity (Days)</u> | <u>Moody's</u> | <u>Percent</u> |
|---------------------------|---------------------|-----------------------------------------------------|----------------|----------------|
| External investment pools | \$ <u>1,335,003</u> | <u>22</u> | not rated | <u>100 %</u> |

The City voluntarily invests certain excess funds in external pooled investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan municipalities. The Pools are not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pools.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of November 30, 2006, \$1,187,699 of the City's bank balance of \$1,401,372 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2006 was as follows:

| | Balance December 1, 2005 | Additions | Deductions | Balance November 30, 2006 |
|-----------------------------------------------|--------------------------------|-------------------|---------------|---------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,946,506 | \$ - | \$ - | \$ 4,946,506 |
| Construction in progress | <u>34,796</u> | <u>457,319</u> | <u>-</u> | <u>492,115</u> |
| Total capital assets, not being depreciated | 4,981,302 | 457,319 | - | 5,438,621 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 316,938 | 5,795 | - | 322,733 |
| Buildings and other improvements | 1,871,323 | 9,475 | - | 1,880,798 |
| Vehicles and equipment | 1,739,434 | 130,550 | 50,309 | 1,819,675 |
| Infrastructure | <u>1,969,203</u> | <u>263,167</u> | <u>-</u> | <u>2,232,370</u> |
| Total capital assets, being depreciated | 5,896,898 | 408,987 | 50,309 | 6,255,576 |
| Less accumulated depreciation: | | | | |
| Land improvements | 205,490 | 13,145 | - | 218,635 |
| Buildings and other improvements | 1,062,599 | 45,613 | - | 1,108,212 |
| Vehicles and equipment | 998,567 | 113,003 | 50,309 | 1,061,261 |
| Infrastructure | <u>18,071</u> | <u>106,581</u> | <u>-</u> | <u>124,652</u> |
| Total accumulated depreciation | <u>2,284,727</u> | <u>278,342</u> | <u>50,309</u> | <u>2,512,760</u> |
| Total capital assets, being depreciated, net | <u>3,612,171</u> | <u>130,645</u> | <u>-</u> | <u>3,742,816</u> |
| Capital assets, net | <u>\$ 8,593,473</u> | <u>\$ 587,964</u> | <u>\$ -</u> | <u>\$ 9,181,437</u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,500 | \$ - | \$ - | \$ 1,500 |
| Construction in progress | <u>-</u> | <u>97,995</u> | <u>-</u> | <u>97,995</u> |
| Total capital assets, not being depreciated | 1,500 | 97,995 | - | 99,495 |

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE D—CAPITAL ASSETS—Continued

| | Balance December 1, 2005 | Additions | Deductions | Balance November 30, 2006 |
|-------------------------------------------------|--------------------------------|-----------|------------|---------------------------------|
| Business-type activities:—Continued | | | | |
| Capital assets, being depreciated: | | | | |
| Sewer system | \$ 1,238,796 | \$ - | \$ - | \$ 1,238,796 |
| Water system | 2,695,886 | - | - | 2,695,886 |
| Buildings and improvements | 13,795 | - | - | 13,795 |
| Equipment | 45,668 | 5,272 | - | 50,940 |
| Total capital assets, being depreciated | 3,994,145 | 5,272 | - | 3,999,417 |
| Less accumulated depreciation: | | | | |
| Sewer system | 503,777 | 17,566 | - | 521,343 |
| Water system | 784,354 | 48,522 | - | 832,876 |
| Buildings and improvements | 1,380 | 920 | - | 2,300 |
| Equipment | 35,979 | 4,061 | - | 40,040 |
| Total accumulated depreciation | 1,325,490 | 71,069 | - | 1,396,559 |
| Total capital assets, being depreciated, net | 2,668,655 | (65,797) | - | 2,602,858 |
| Capital assets, net | \$ 2,670,155 | \$ 32,198 | \$ - | \$ 2,702,353 |

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

| | |
|-------------------------------------------------------------------------------------------------------------|-------------------|
| General government | \$ 9,228 |
| Public safety | 64,803 |
| Public works | 117,368 |
| Culture and recreation | 48,432 |
| Internal Service Fund depreciation is charged to the various programs based on their usage of the assets | 38,511 |
| | <u>\$ 278,342</u> |

Business-type activities:

| | |
|-------|------------------|
| Sewer | \$ 20,333 |
| Water | 50,736 |
| | <u>\$ 71,069</u> |

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended November 30, 2006 was as follows:

| | Balance December 1, 2005 | Additions | Deductions | Balance November 30, 2006 |
|-------------------------------|--------------------------------|-------------------|------------------|---------------------------------|
| Business-type activities | | | | |
| Access rights | \$ 163,291 | \$ 264,238 | \$ 21,666 | \$ 405,863 |
| Less accumulated amortization | <u>80,295</u> | <u>12,462</u> | <u>664</u> | <u>92,093</u> |
| Access rights, net | <u>\$ 82,996</u> | <u>\$ 251,776</u> | <u>\$ 21,002</u> | <u>\$ 313,770</u> |

Amortization

Amortization expense has been charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended November 30, 2006 was as follows:

| | Balance December 1, 2005 | Additions | Deductions | Balance November 30, 2006 |
|----------------------------------|--------------------------------|-------------------|-------------|---------------------------------|
| Governmental activities: | | | | |
| Bond issuance costs | \$ 18,496 | \$ - | \$ - | \$ 18,496 |
| Less accumulated amortization | <u>842</u> | <u>3,256</u> | <u>-</u> | <u>4,098</u> |
| Bond issuance costs, net | <u>\$ 17,654</u> | <u>\$ (3,256)</u> | <u>\$ -</u> | <u>\$ 14,398</u> |
| Business-type activities: | | | | |
| Bond issuance costs | \$ 16,060 | \$ - | \$ - | \$ 16,060 |
| Less accumulated amortization | <u>6,649</u> | <u>1,173</u> | <u>-</u> | <u>7,822</u> |
| Bond issuance costs, net | <u>\$ 9,411</u> | <u>\$ (1,173)</u> | <u>\$ -</u> | <u>\$ 8,238</u> |

Amortization

Amortization expense was charged to functions as follows:

Governmental activities:

| | |
|----------------------------|-----------------|
| Interest on long-term debt | \$ <u>3,256</u> |
|----------------------------|-----------------|

Business-type activities:

| | |
|-------|-----------------|
| Sewer | \$ <u>1,173</u> |
|-------|-----------------|

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds:

The Contingent and Reserve Fund owes \$57,593 to the General Fund for the Block 58 project. In addition, the General Fund owes \$86,772 to the Contingent and Reserve Fund for transfers not paid as of November 30, 2006.

Advances to/from other funds:

Other governmental funds owes \$7,898 to the Contingent and Reserve Fund for capital projects.

Interfund transfers:

| | Transfers in: | | | | Total | Purpose |
|-----------------------------|-------------------|--------------------|-----------------------------|--------------------------|-------------------|--------------------------------|
| | General Fund | Major Streets Fund | Contingent and Reserve Fund | Other governmental funds | | |
| Transfers out: | | | | | | |
| General Fund | \$ - | \$ - | \$ 57,593 | \$ 9,020 | \$ 66,613 | See Note J |
| Contingent and Reserve Fund | 270,119 | - | - | - | 270,119 | Capital projects |
| Millage Fund | 75,000 | 128,822 | - | - | 203,822 | Public safety and public works |
| Other governmental funds | - | - | 14,805 | - | 14,805 | Close funds |
| Total | \$ <u>345,119</u> | \$ <u>128,822</u> | \$ <u>72,398</u> | \$ <u>9,020</u> | \$ <u>555,359</u> | |

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|-----------------------------------------------|--------------------|------------------|
| Special assessments | \$ 77,317 | \$ - |
| Grants and fees | - | 28,510 |
| Total deferred revenue for governmental funds | \$ <u>77,317</u> | \$ <u>28,510</u> |

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended November 30, 2006.

| | Balance December 1, 2005 | Additions | Reductions | Balance November 30, 2006 | Due within one year |
|-------------------------------------------------|--------------------------------|-------------------|-------------------|---------------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,100,000 | \$ - | \$ 75,000 | \$ 1,025,000 | \$ 75,000 |
| Michigan Transportation Fund debt | 65,000 | - | 10,000 | 55,000 | 10,000 |
| Compensated absences | 126,407 | 69,537 | 73,474 | 122,470 | 61,000 |
| Governmental activity long-term liabilities | <u>\$ 1,291,407</u> | <u>\$ 69,537</u> | <u>\$ 158,474</u> | <u>\$ 1,202,470</u> | <u>\$ 146,000</u> |
| Business-type activities: | | | | | |
| General obligation bonds | \$ 236,055 | \$ 264,238 | \$ 57,847 | \$ 442,446 | \$ 36,800 |
| Revenue bonds | 760,000 | - | 50,000 | 710,000 | 50,000 |
| Compensated absences | - | 20,847 | 7,072 | 13,775 | 7,000 |
| Business-type activity long-term liabilities | <u>\$ 996,055</u> | <u>\$ 285,085</u> | <u>\$ 114,919</u> | <u>\$ 1,166,221</u> | <u>\$ 93,800</u> |

Governmental activities:

General obligation bonds:

Limited Tax General Obligation Bonds of 2005 payable in
annual installments of \$75,000 to \$175,000
through April 2014; interest at rates varying
from 3.25% to 3.6%

\$ 1,025,000

Michigan Transportation Fund debt:

\$115,000 Michigan Transportation Fund Bonds of 2001
payable in annual installments of \$10,000 to
\$15,000 through November 2010; interest at
rates varying from 4.1% to 4.4%

55,000

1,080,000

Compensated absences

122,470

\$ 1,202,470

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

General obligation bonds:

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| \$129,334 Northside Water System Bonds of 1983; payable in annual installments of \$8,200 through February 2022; including interest at 6% | \$ 80,693 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| \$110,521 Muskegon County Wastewater Management System Bonds of 2002 payable in annual installments of \$33,043 to \$33,359 through July 2008; interest at 5% | 66,402 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|

| | |
|---------------------------------------------------------------------------------------------------------------------|---------|
| \$542,500 Muskegon County Wastewater Management System contract payable beginning in 2008; interest at 1.625% | 295,351 |
|---------------------------------------------------------------------------------------------------------------------|---------|

Revenue bonds:

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| \$895,000 Water Revenue Bonds of 2001 payable in annual installments of \$50,000 to \$55,000 through November 2020; interest at 4.5% to 5.4% | 710,000 |
| | 1,152,446 |
| Compensated absences | 13,775 |
| | \$ 1,166,221 |

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The City was in compliance in all material respects with all the revenue bond ordinances at November 30, 2006.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE I—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity for debt outstanding as of November 30, 2006 follows:

| Year ending November 30, | Governmental activities | | Business-type activities | |
|-----------------------------|-------------------------|-------------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2007 | \$ 85,000 | \$ 36,000 | \$ 86,700 | \$ 43,200 |
| 2008 | 115,000 | 32,700 | 382,000 | 39,100 |
| 2009 | 140,000 | 28,400 | 53,800 | 35,000 |
| 2010 | 140,000 | 23,600 | 59,000 | 32,500 |
| 2011 | 125,000 | 18,800 | 54,200 | 29,700 |
| 2012-2016 | 475,000 | 26,170 | 275,500 | 108,200 |
| 2017-2021 | - | - | 239,000 | 34,900 |
| 2022 | - | - | 2,246 | 251 |
| | <u>\$ 1,080,000</u> | <u>\$ 165,670</u> | <u>\$ 1,152,446</u> | <u>\$ 322,851</u> |

NOTE J—UNRESERVED, UNDESIGNATED FUND BALANCE – GENERAL FUND

In accordance with a council resolution, the unreserved, undesignated fund balance in the General Fund is maintained at \$25,000. The Contingent and Reserve Fund receives excess revenues or provides for deficiencies. The transfer from the General Fund to the Contingent and Reserve Fund amounted to \$57,593 for the year ended November 30, 2006.

NOTE K—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE K—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is currently a defendant in a lawsuit. Initial judgment has been rendered against the City and the liability has been recorded in the Contingent and Reserve fund. The City is appealing the case.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were fifteen retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended November 30, 2006, the City's post-retirement health care cost under the Plan was approximately \$82,000.

Lease

The City leases an automobile under an operating lease. Lease expense amounted to \$4,268 for the year ended November 30, 2006. The future minimum lease payment for the year ended November 30, 2007 is \$3,103.

NOTE L—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The City of North Muskegon is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of North Muskegon. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of North Muskegon
1502 Ruddiman Drive
North Muskegon, MI 49445

Funding Policy. Plan members are required to contribute 3 percent of the first \$4,200 of annual compensation and 5 percent of the portion over \$4,200 to the plan. The City is required to contribute at an actuarially-determined rate depending upon position from 14.95 to 21.23 percent of covered wages.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2006

NOTE L—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Annual Pension Cost. For the year ended November 30, 2006, the City's annual pension cost was approximately \$86,000 which the City contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

| <u>Year ending</u> | <u>Approximate Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|------------------------------------------------------|----------------------------------------------|-----------------------------------|
| 11/30/04 | \$ 69,000 | 100 % | \$ - |
| 11/30/05 | 81,000 | 100 | - |
| 11/30/06 | 86,000 | 100 | - |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in thousands)

| <u>Actuarial valuation date</u> | <u>Actuarial value of assets</u> | <u>Actuarial Accrued Liability (AAL) Entry Age</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded ratio</u> | <u>Covered payroll</u> | <u>UAAL as a percentage of covered payroll</u> |
|-----------------------------------------|------------------------------------------|------------------------------------------------------------|------------------------------------|-------------------------|----------------------------|--------------------------------------------------------|
| 12/31/03 | \$ 3,673 | \$ 4,459 | \$ 786 | 82 % | \$ 880 | 89 % |
| 12/31/04 | 3,755 | 5,092 | 1,337 | 74 | 770 | 174 |
| 12/31/05 | 3,863 | 5,252 | 1,389 | 74 | 772 | 180 |

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE M—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 15 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended November 30, 2006

| | Budgeted amounts | | | Variance with final budget- positive (negative) |
|---------------------------------------|------------------|--------------|--------------|----------------------------------------------------------|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Property taxes | \$ 1,440,223 | \$ 1,441,750 | \$ 1,441,760 | \$ 10 |
| Licenses and permits | 68,300 | 72,220 | 72,867 | 647 |
| Intergovernmental revenues - State | 340,860 | 525,534 | 538,197 | 12,663 |
| Charges for services | 68,307 | 61,278 | 61,313 | 35 |
| Fines and forfeitures | 9,000 | 10,700 | 11,021 | 321 |
| Investment earnings | 28,000 | 43,000 | 37,932 | (5,068) |
| Other | 70,881 | 72,460 | 73,694 | 1,234 |
| Total revenues | 2,025,571 | 2,226,942 | 2,236,784 | 9,842 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| City manager | 77,036 | 78,236 | 77,833 | 403 |
| Elections | 13,700 | 12,700 | 11,081 | 1,619 |
| Board of review | 600 | 515 | 515 | - |
| Clerk | 48,296 | 48,946 | 48,654 | 292 |
| Treasurer | 47,756 | 46,231 | 46,166 | 65 |
| Assessor | 18,940 | 16,445 | 16,445 | - |
| Attorney | 32,400 | 79,613 | 67,554 | 12,059 |
| Office - clerical | 33,874 | 33,224 | 33,025 | 199 |
| City hall | 46,600 | 48,700 | 48,987 | (287) |
| Public service building | 28,700 | 39,700 | 40,096 | (396) |
| Public safety | | | | |
| Police department | 500,746 | 481,604 | 472,337 | 9,267 |
| Fire department | 121,457 | 114,150 | 110,970 | 3,180 |
| Building inspector | 14,900 | 14,400 | 14,400 | - |
| Public works | | | | |
| Sidewalk maintenance | 22,300 | 7,300 | 7,270 | 30 |
| Street department | 92,107 | 98,907 | 101,517 | (2,610) |
| Engineering | 3,000 | 3,250 | 3,000 | 250 |
| Sanitation | 190,156 | 190,156 | 185,708 | 4,448 |
| Culture and recreation | | | | |
| City parks | 41,590 | 35,690 | 34,192 | 1,498 |
| Recreation facilities | 30,000 | 41,950 | 41,525 | 425 |
| Walker Memorial Library | 50,400 | 47,550 | 42,967 | 4,583 |
| Other governmental functions | 593,993 | 545,210 | 542,662 | 2,548 |
| Capital outlay | 71,500 | 449,644 | 582,248 | (132,604) |
| Total expenditures | 2,080,051 | 2,434,121 | 2,529,152 | (95,031) |
| Excess of revenues under expenditures | (54,480) | (207,179) | (292,368) | (85,189) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 1,500 | 3,352 | 3,352 | - |
| Transfers in | 76,500 | 260,847 | 345,119 | 84,272 |
| Transfers out | (23,520) | (57,020) | (66,613) | (9,593) |
| Total other financing sources | 54,480 | 207,179 | 281,858 | 74,679 |
| Net change in fund balance | \$ - | \$ - | (10,510) | \$ (10,510) |
| Fund balance at December 1, 2005 | | | 35,510 | |
| Fund balance at November 30, 2006 | | | \$ 25,000 | |

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended November 30, 2006

| | Budgeted amounts | | | Variance with final budget- positive (negative) |
|--------------------------------------|------------------|------------|------------|----------------------------------------------------------|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Intergovernmental revenues - State | \$ 220,000 | \$ 210,700 | \$ 208,448 | \$ (2,252) |
| Investment earnings | 2,500 | 24,000 | 28,658 | 4,658 |
| Total revenues | 222,500 | 234,700 | 237,106 | 2,406 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | 94,872 | 93,915 | 89,077 | 4,838 |
| Capital outlay | - | 129,000 | 128,822 | 178 |
| Total expenditures | 94,872 | 222,915 | 217,899 | 5,016 |
| Excess of revenues over expenditures | 127,628 | 11,785 | 19,207 | 7,422 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | - | 128,822 | 128,822 | - |
| Net change in fund balance | \$ 127,628 | \$ 140,607 | 148,029 | \$ 7,422 |
| Fund balance at December 1, 2005 | | | 567,862 | |
| Fund balance at November 30, 2006 | | | \$ 715,891 | |

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Streets Fund
For the year ended November 30, 2006

| | Budgeted amounts | | Actual | Variance with final budget- positive (negative) |
|---------------------------------------|------------------|--------------|------------|----------------------------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental revenues - State | \$ 84,000 | \$ 77,743 | \$ 76,486 | \$ (1,257) |
| Investment earnings | 4,000 | 14,000 | 13,418 | (582) |
| Other | 8,000 | 12,491 | 14,472 | 1,981 |
| Total revenues | 96,000 | 104,234 | 104,376 | 142 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | 72,751 | 63,945 | 59,061 | 4,884 |
| Debt service | | | | |
| Principal | 10,000 | 10,000 | 10,000 | - |
| Interest and fees | 2,750 | 2,750 | 2,745 | 5 |
| Capital outlay | 29,000 | 135,000 | 134,344 | 656 |
| Total expenditures | 114,501 | 211,695 | 206,150 | 5,545 |
| Excess of revenues under expenditures | (18,501) | (107,461) | (101,774) | 5,687 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | 14,500 | - | - | - |
| Net change in fund balance | \$ (4,001) | \$ (107,461) | (101,774) | \$ 5,687 |
| Fund balance at December 1, 2005 | | | 360,875 | |
| Fund balance at November 30, 2006 | | | \$ 259,101 | |

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Contingent and Reserve Fund
For the year ended November 30, 2006

| | Budgeted amounts | | Actual | Variance with final budget- positive (negative) |
|----------------------------------------------|------------------|--------------|------------|----------------------------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for services | \$ 3,800 | \$ 3,800 | \$ 3,800 | \$ - |
| Investment earnings | 5,000 | 17,500 | 18,468 | 968 |
| Total revenues | 8,800 | 21,300 | 22,268 | 968 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| Litigation | - | - | 91,234 | (91,234) |
| Excess of revenues over (under) expenditures | 8,800 | 21,300 | (68,966) | (90,266) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 72,398 | 72,398 |
| Transfers out | - | (185,847) | (270,119) | (84,272) |
| Total other financing sources (uses) | - | (185,847) | (197,721) | (11,874) |
| Net change in fund balance | \$ 8,800 | \$ (164,547) | (266,687) | \$ (102,140) |
| Fund balance at December 1, 2005 | | | 705,090 | |
| Fund balance at November 30, 2006 | | | \$ 438,403 | |

OTHER SUPPLEMENTAL INFORMATION

City of North Muskegon
COMBINING BALANCE SHEET
 Other Governmental Funds
 November 30, 2006

| | | Special Revenue | | Capital Projects | | |
|--------------------------------------|--------------------------------------|-------------------------------|----------------------|--------------------------------------|--------------------------------------|-----------------------------------------|
| | Total other governmental funds | Walker Community Center | Summer Recreation | Alley Paving District #02-A | Alley Paving District #95-B | Alley Paving District #96-A, B |
| ASSETS | | | | | | |
| Cash and investments | \$ 16,076 | \$ 2,923 | \$ 5,180 | \$ 7,973 | \$ - | \$ - |
| Special assessments receivable | 8,940 | - | - | 8,940 | - | - |
| Total assets | <u>\$ 25,016</u> | <u>\$ 2,923</u> | <u>\$ 5,180</u> | <u>\$ 16,913</u> | <u>\$ -</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 988 | \$ 988 | \$ - | \$ - | \$ - | \$ - |
| Accrued liabilities | 10 | 10 | - | - | - | - |
| Deferred revenue | 7,450 | - | - | 7,450 | - | - |
| Advances from other funds | 7,898 | - | - | 7,898 | - | - |
| Total liabilities | 16,346 | 998 | - | 15,348 | - | - |
| Fund balances | | | | | | |
| Reserved for capital projects | 1,565 | - | - | 1,565 | - | - |
| Unreserved | | | | | | |
| Undesignated | 7,105 | 1,925 | 5,180 | - | - | - |
| Total fund balances | 8,670 | 1,925 | 5,180 | 1,565 | - | - |
| Total liabilities and fund balances | <u>\$ 25,016</u> | <u>\$ 2,923</u> | <u>\$ 5,180</u> | <u>\$ 16,913</u> | <u>\$ -</u> | <u>\$ -</u> |

City of North Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Other Governmental Funds
For the year ended November 30, 2006

| | | Special Revenue | | Capital Projects | | |
|----------------------------------------------|--------------------------------------|-------------------------------|----------------------|--------------------------------------|--------------------------------------|-----------------------------------------|
| | Total other governmental funds | Walker Community Center | Summer Recreation | Alley Paving District #02-A | Alley Paving District #95-B | Alley Paving District #96-A, B |
| REVENUES | | | | | | |
| Intergovernmental revenues - State | \$ 9,375 | \$ 9,375 | \$ - | \$ - | \$ - | \$ - |
| Charges for services | 10,170 | 3,250 | 6,920 | - | - | - |
| Investment earnings | 3,169 | 298 | 362 | 1,949 | 141 | 419 |
| Other | 1,490 | - | - | 1,490 | - | - |
| Total revenues | 24,204 | 12,923 | 7,282 | 3,439 | 141 | 419 |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Culture and recreation | 19,241 | 7,697 | 11,544 | - | - | - |
| Capital outlay | 9,475 | 9,475 | - | - | - | - |
| Total expenditures | 28,716 | 17,172 | 11,544 | - | - | - |
| Excess of revenues over (under) expenditures | (4,512) | (4,249) | (4,262) | 3,439 | 141 | 419 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 9,020 | 4,520 | 4,500 | - | - | - |
| Transfers out | (14,805) | - | - | - | (2,996) | (11,809) |
| Total other financing sources (uses) | (5,785) | 4,520 | 4,500 | - | (2,996) | (11,809) |
| Net change in fund balances (deficits) | (10,297) | 271 | 238 | 3,439 | (2,855) | (11,390) |
| Fund balances (deficits) at December 1, 2005 | 18,967 | 1,654 | 4,942 | (1,874) | 2,855 | 11,390 |
| Fund balances at November 30, 2006 | \$ 8,670 | \$ 1,925 | \$ 5,180 | \$ 1,565 | \$ - | \$ - |